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Item 10 of the provisional agenda

INTRODUCTION OF THE EURO

Note by the Secretariat

Provides information on exchange rate to be applied for conversion of assets, liabilities, reserves and fund balances into euros effective 1 January 2002.

Introduction

1. At its eighth session, the General Conference decided to adopt, beginning with the fiscal period 2002-2003, a single currency system of assessment based on the euro for contributions to the regular budget (GC.8/Dec.16). The Conference also decided to amend the concomitant Financial Regulations of UNIDO relating to the preparation of budgets, appropriation and assessment, collection of contributions and advances, and currency of accounts, as stated in document GC.8/15-IDB.21/30, paragraph 34.

2. In document GC.8/15-IDB.21/30 (paras. 36 and 37), the Secretariat pointed out that the following two issues would also require approval by the governing bodies prior to the introduction of the euro effective 1 January 2002:

(a) An exchange rate to convert assets, liabilities, reserves and fund balances that are presently shown in United States dollars in accordance with existing financial regulation 10.5;

(b) An exchange rate to convert the 2000-2001 budgets to euros to ensure a realistic comparison with budgets of future periods.

I. CURRENT ACCOUNTING PRACTICE

3. In accordance with financial regulation 10.5 and financial rule 110.6, accounts of the Organization are maintained and presented in United States dollars; this practice will continue until 31 December 2001. Under the current practice, for purposes of the financial statements all non-dollar-based currencies are converted to United States dollars at the United Nations rate of exchange (RoE) in effect on the date of the statement. For instance, all non-dollar-based currencies were converted to dollars at the United Nations RoE of December 2000, as shown in the annex to the present document and in document IDB.24/6-PBC.17/6. The

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only exception is the prior biennium's outstanding assessed contributions of Austrian schillings (ATS), which, in accordance with decision IDB.7/Dec.7, were converted at the United Nations RoE for a three-year period covering the prior biennium (1998-1999) and the 12-month period following that biennium (2000) (IDB.24/6-PBC.17/6, notes to the financial statements, 2(a) and 2(d)).

4. The above practice is also in accordance with the United Nations System Accounting Standards, which require that the statement of assets, liabilities and reserves and fund balances for the purpose of reporting monetary items (i.e. money held, assets, liabilities, reserves and fund balances to be received or paid in fixed or determinable amounts of money) denominated in currencies other than the currency of accounts should be reported using the United Nations operational rate of exchange in effect at the reporting date.[1] This is also fully in line with the International Accounting Standards, which recommend that at each balance sheet date "foreign currency monetary items should be reported by using the closing rate",[2] i.e. the exchange rate at the time of the statement.

II. CONVERSION OF BUDGET

5. A document proposing options for conversion of the 2000-2001 programme and budgets (paragraph 2 (b) above) into euros for comparison purposes was submitted to the Programme and Budget Committee at its sixteenth session (PBC.16/3). The Committee decided to convert the 18 per cent dollar portion of the 2000-2001 regular budget into euros by using the January to December 2000 average United Nations euro/dollar exchange rate (conclusion 2000/4). As explained in document PBC.16/3, for the conversion of the budget, it was considered that the average rate would best preserve the purchasing power of the 18 per cent dollar component.

III. CONVERSION OF ASSETS, LIABILITIES, RESERVES AND FUND BALANCES (General Fund, Working Capital Fund and other headquarters funds)

6. As stated in paragraph 2 (a) above, all assets, liabilities, reserves and fund balances that are presently shown in United States dollars, in accordance with existing financial regulation 10.5, will require conversion into euros on 31 December 2001. For the sake of transparency and consistency as well as to safeguard the interests of all stakeholders, the chosen methodology must be kept simple and unambiguous.

7. For illustration purposes, the annex to the present document shows a detailed statement of assets, liabilities, reserves and fund balances for the General Fund and the Working Capital Fund as at 31 December 2000, which has been taken from the interim financial performance report for the biennium 2000-2001 (IDB.24/6-PBC.17/6). The annex also shows the amounts in the original currency (columns 1 and 2) as at 31 December 2000, the equivalent amount in US dollars at the December 2000 United Nations RoE (column 3), as well as the equivalent euro amounts resulting from conversions (paras. 9 to 21 below) (columns 4 and 5). It should be noted that this annex has been included for illustration purposes only, as both the amounts and the United Nations RoE will be different in December 2001.

8. The selected option will also apply to the conversion of the assets, liabilities, reserves and fund balances of other headquarters funds.

Austrian schilling amounts

9. All ATS amounts have been converted to euros at the exchange rate that has been fixed at ATS 13.7603 = €1.0. The annex (columns 4 and 5) shows that such conversions do not lead to any exchange gains or losses. Since the Austrian schilling has become a sub-unit of the euro and the schilling/euro exchange rate has been irrevocably fixed, there is no possibility of another rate, and thus no approval by the governing bodies is needed.

United States dollar amounts

10. An exchange rate has to be established to convert all dollar-based amounts into euros at the end of the year 2001. Two options are presented below for consideration by Member States. The annex to the present document also shows the consequences under each option.

Option 1

11. All dollar-based assets, liabilities, reserves and fund balances would be converted to euros at the December 2001 United Nations RoE. This option is simple and transparent and would represent the current monetary value of all assets, liabilities, reserves and fund balances as at 31 December 2001. As stated in paragraphs 3 and 4 above, this option is also in accordance with current UNIDO practice as well as the United Nations System Accounting Standards and the International Accounting Standards. The conversion at the December 2001 United Nations RoE would also avoid any exchange gains or losses.

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[1] United Nations System Accounting Standards, revision II, UNAS 30.

[2] *International Accounting Standards* 1997, International Accounting Standards Committee, London, IAS 21.

12. The above is illustrated in column 4 of the annex to the present document by using the statement of assets, liabilities, reserves and fund balances for the year ended 31 December 2000. In this example, all ATS amounts have been converted at ATS 13.7603 = €1.00, and all dollar-based amounts at the December 2000 United Nations RoE of US$ 1.00 = €1.1561. This shows that total assets (€33,609,871) equal total liabilities, reserves and fund balances (€33,609,871). Thus, no exchange gain or loss results from the conversion.

13. Comments received from the Director of External Audit on this option are as follows: "...this solution ensures the highest possible degree of transparency, consistency and accuracy. Additionally the solution is appropriate and the only solution that is in line with the United Nations System Accounting Standards and the International Accounting Standards."

14. Should the above option be approved by Member States, the dollar-based amounts as at 31 December 2001 will be converted to euros at the December 2001 United Nations RoE.

Option 2

15. All dollar-based assets, liabilities, reserves and fund balances would be converted to euros as follows:

(a) December 2001 United Nations RoE: Cash, assessed contributions of the biennium 2000-2001, accounts receivables and payables, reserves and unencumbered balances of appropriations of the current biennium;

(b) Average United Nations dollar/euro RoE for the three years 1999 to 2001: assessed contributions relating to prior bienniums, surpluses and unencumbered balances of appropriations of prior biennium.

16. The above is illustrated in column 5 of the annex to the present document by using the statement of assets, liabilities, reserves and fund balances for the year ended 31 December 2000. In this example, all ATS amounts have also been converted at ATS 13.7603 = €1.00, and dollar-based amounts have been converted as follows: December 2000 United Nations RoE of US$ 1.00 = €1.1561 for items listed in paragraph 15 (a) above, and the average United Nations RoE for 1999 and 2000 of US$ 1 = €1.0077 for items listed in paragraph 15 (b) above.

17. The application of the December 2000 United Nations RoE to some amounts and the average United Nations RoE to other amounts results in an exchange loss of €1,368,255 (column 5 of the example shown in the annex), which is the difference between total assets (€33,609,871) and total liabilities, reserves and fund balances (€34,978,126). In order to balance the accounts, it would be necessary to randomly prorate the above exchange loss against the unencumbered balances of appropriations of prior bienniums, as it would be difficult to identify to which biennium the loss relates.

18. Though option 2 may appear to be in line with decision IDB.7/Dec.7, it actually applies only to the conversion of outstanding contributions for a single biennium. Therefore, in view of the fact that some assets and liabilities date back to the time when UNIDO became a specialized agency (e.g. assessed contributions outstanding for the period 1986–1999 and the loan from the United Nations), it would seem that this decision is not applicable.

19. Furthermore, the above option is neither in line with the United Nations System Accounting Standards nor with the International Accounting Standards (paras. 3 and 4 above), and a number of conversions may be subject to different interpretation (e.g. the United Nations loan). This option is, therefore, not preferred.

20. The Director of External Audit has informed the Secretariat that he would not support this option as some items date from before the conception of the euro, as well as the fact that it is neither in line with the United Nations System Accounting Standards nor with the International Accounting Standards.

21. Should option 2 be approved, some dollar-based amounts would be converted using the 31 December 2001 United Nations RoE, and others would be converted to euros at the average United Nations euro/dollar RoE for the period 1999 to 2001.

IV. CONVERSION OF EXTRABUDGETARY ACCOUNTS

22. Document GC.8/15-IDB.21/30, paragraph 25, states that with the introduction of a euro-based single currency, UNIDO would have to continue to record and report transactions in United States dollars for most technical cooperation activities that are financed from extrabudgetary resources.

23. In accordance with amended financial regulation 10.5 and financial rule 110.6, the Secretariat will therefore continue to keep such extrabudgetary accounts in US dollars, if required, but will convert all such assets, liabilities, reserves and fund balances for the financial statements purposes at the United Nations euro/dollar exchange rate in effect on the date of the statement.

V. CONCLUSION

24. In the view of the Secretariat, option 1 provides a more realistic value of assets, liabilities, reserves and fund balances that is in accordance with the current UNIDO practice as well as the United Nations System Accounting Standards and the International Accounting Standards. This option is also simple and transparent and would safeguard the interests of all stakeholders. Furthermore, no item would be subject to different interpretation (i.e. whether the December or the average United Nations RoE should be used for certain items), as all items would be converted to euros at the one United Nations RoE, and thus no gains and losses will result from conversions.

25. The Director of External Audit supports this conclusion and recommends "... to apply the United Nations RoE for December 2001 for all conversion of assets, liabilities, fund balances and reserves into euros on 31December 2001."

VI. ACTION REQUIRED OF THE COMMITTEE

26. The Committee may wish to propose to the Board the adoption of the following draft decision:

"The Industrial Development Board:

(a) "Takes note of the information provided by the Secretariat in document IDB.24/10-PBC.17/10 on the introduction of the euro;

(b) "Recommends that the General Conference take note that all assets, liabilities, reserves and fund balances that are in Austrian schillings will be converted into euros by applying the fixed rate of ATS 13.7603 = €1;

(c) "Also recommends that the Conference note that the Director-General will continue to keep extrabudgetary accounts in United States dollars, if required, but will convert all such assets, liabilities, reserves and fund balances for the purposes of the financial statements at the United Nations euro/dollar exchange rate in effect on the date of the statement;

(d) "Recommends that the General Conference decide to convert all dollar-based amounts of the assets, liabilities, reserves and fund balances of the General Fund, Working Capital Fund and other headquarters funds as at 31 December 2001, using the December 2001 United Nations euro/dollar exchange rate."

Annex

STATEMENT OF ASSETS, LIABILITITES, RESERVES AND FUND BALANCES
GENERAL FUND AND WORKING CAPITAL FUND

ASSETS	BALANCES AS AT 31 DECEMBER 2000			OPTION 1	OPTION 2	
	US$	ATS/OTHERS	TOTAL US$	TOTAL EUROS	TOTAL EUROS	
	(1)	(2)	(3)	(4)	(5)	
CASH						
Cash at banks - US$	8,478,193		8,478,193	9,801,639	9,801,639	*(a)*
Cash at banks - local currency (ATS)		13,041,778	819,810	947,782	947,782	*(a)*
Interest bearing bank deposits local currency (ATS)		70,000,000	4,400,219	5,087,093	5,087,093	*(a)*
TOTAL CASH			**13,698,222**	**15,836,514**	**15,836,514**	
ASSESSED CONTRIBUTIONS RECEIVABLE						
Receivable Member States US$ - Current biennium	2,039,317		2,039,317	2,357,654	2,357,654	*(a)*
Receivable Member States US$ - Prior bienniums	94,663,505		94,663,505	109,440,478	95,392,414	*(b)*
Receivable Member States ATS - Current biennium		119,479,328	7,510,503	8,682,892	8,682,892	*(a)*
Receivable new Member States US$ - Current biennium	43,890		43,890	50,742	50,742	*(a)*
Receivable new Member States US$ - Prior bienniums	292,485		292,485	338,142	294,737	*(b)*
Receivable new Member States ATS - Current biennium		2,571,418	161,640	186,872	186,872	*(a)*
Working Capital Fund	116,978		116,978	135,238	135,238	*(a)*
TOTAL ASSESSED CONTRIBUTIONS RECEIVABLE			**104,828,318**	**121,192,018**	**107,100,549**	
PROVISIONS FOR DELAYS IN THE COLLECTION OF CONTRIBUTIONS	(94,955,990)		**(94,955,990)**	**(109,778,620)**	**(95,687,151)**	*(b)*
ACCOUNTS RECEIVABLE						
Accounts receivable	3,831,624		3,831,624	4,429,740	4,429,740	*(a)*
Value added tax - Austrian schillings		26,233,013	1,649,014	1,906,425	1,906,425	*(a)*
- French francs		4,567	602	697	697	*(a)*
- Pounds sterling		13,560	19,371	22,396	22,396	*(a)*
- German marks		1,369	606	701	701	*(a)*
TOTAL ACCOUNTS RECEIVABLE	1,669,593		**5,501,217**	**6,359,959**	**6,359,959**	
TOTAL ASSETS			**29,071,767**	**33,609,871**	**33,609,871**	

Notes:

Option 1: Conversion as follows: ATS 13.7603 = €1.0 (fixed RoE); US$ 1.00 = €1.1561 (December 2000 United Nations operational RoE)

Option 2: Conversion as follows: ATS 13.7603 = €1.00 (fixed RoE); (a) US$ 1.00 = €1.1561 (December 2000 United Nations operational RoE); (b) US$ 1.00 = €1.0077 (average United Nations operational RoE for 1999 and 2000)

LIABILITIES, RESERVES AND FUND BALANCE	BALANCES AS AT 31 DECEMBER 2000			OPTION 1	OPTION 2	
	US$	ATS/OTHERS	TOTAL US$	TOTAL EURO	TOTAL EURO	
	(1)	(2)	(3)	(4)	(5)	
LIABILITIES						
Accounts payable	8,241,370		8,241,370	9,527,848	9,527,848	*(a)*
Van Breda premium reserve		6,240,582	392,284	453,520	453,520	*(a)*
Loan from United Nations	5,000,000		5,000,000	5,780,500	5,780,500	*(a)*
Unliquidated obligations	4,881,040		4,881,040	5,642,971	5,642,971	*(a)*
TOTAL LIABILITIES			**18,514,694**	**21,404,839**	**21,404,839**	
RESERVES						
Separation indemnity	4,880,546		4,880,547	5,642,400	5,642,400	*(a)*
Sales publications revolving fund	121,131		121,131	140,040	140,040	*(a)*
Income from new Member States	205,530		205,530	237,613	237,613	*(a)*
TOTAL RESERVES			**5,207,208**	**6,020,053**	**6,020,053**	
FUND BALANCES						
Surplus - assessment on new Member States - Prior bienniums	272,747		272,747	315,323	274,847	*(b)*
Unencumbered balances of appropriations - Prior bienniums	85,463,191		85,463,191	98,803,995	86,121,257	*(b)*
Unencumbered balances of appropriations - Current biennium	16,082,002		7,935,724	9,174,490	9,174,490	*(a)*
Working Capital Fund	6,634,193		6,634,193	7,669,791	7,669,791	*(a)*
Provision for delays in the collection of contributions	(94,955,990)		(94,955,990)	(109,778,620)	(95,687,151)	*(b)*
TOTAL FUND BALANCE			**5,349,865**	**6,184,979**	**7,553,234**	
TOTAL LIABILITIES, RESERVES AND FUND BALANCES			**29,071,767**	**33,609,871**	**34,978,126**	
LOSS ON CONVERSION TO EURO					**1,368,255**	
ADJUSTED LIABILITITES, RESERVES & FUND BALANCE					**33,609,871**	

Notes:

Option 1: Conversion as follows: ATS 13.7603 = €1.0 (fixed RoE); US$ 1.00 = €1.1561 (December 2000 United Nations operational RoE)

Option 2: Conversion as follows: ATS 13.7603 = €1.00 (fixed RoE); (a) US$ 1.00 = €1.1561 (December 2000 United Nations operational RoE); (b) US$ 1.00 = €1.0077 (average United Nations operational RoE for 1999 and 2000)